CFOs Express Growing Worry and Concern

That is the context that renders the most recent CONFINDEX results so remarkable. Rather than expressing ongoing optimism, CFOs indicated a flurry of concern during 2018’s initial quarter, much of it related not only to lingering issues such as human capital shortfalls, but also emerging concerns regarding tariffs and rapidly rising materials prices.

The Overall Index reading slipped from 124 at the end of 2017 to 116 during the first quarter of 2018. The Overall Index is down by nearly 11% relative to a year ago, even as many contractors have become busier and U.S. economic growth has accelerated.

Undoubtedly, construction CFOs, who were concerned about profit margins in earlier quarters given expanding worker shortages, are now even more concerned given recent spikes in fuel and softwood lumber prices and the implications of recently enacted tariffs on steel and aluminum. One CFO summed it up as feeling “worried that the tariff on metals will increase cost and reduce availability to the point that some projects will not be built.”

This represents an important consideration. The imposition of tariffs on steel and aluminum will presumably raise construction materials prices. Anecdotal evidence indicates that some of this has already occurred. But there are broader potential implications, including higher inflation, rising interest rates, diminished developer and financier confidence, and ultimately fewer projects. The proportion of CONFINDEX survey respondents indicating that they were very or highly concerned about demand for construction rose from 5% to 11% during 2018’s first quarter.

Some of this concern may also be linked to the lack of progress regarding an American infrastructure package. Infrastructure has been at the center of considerable discussion, but little action.

These dynamics likely also help explain the dip in the Business Conditions Index, which slid nearly 9% on a quarterly basis and is down by approximately 13% on a year ago basis. The Financial Conditions Index, which one might have thought would have been improving post-tax cut and in the context of banking regulations, fell 4.2% during the quarter and is nearly 9% lower relative to its level last year.

Similarly, the Current Confidence Index fell more than 5% during the quarter. It is also down on a year-over-year basis. Comments supplied by survey respondents collectively suggest that uncertainty emerging from the federal policymaking environment may be dampening prospects in the immediate near-term.

However, nothing is as revealing regarding recent construction CFO attitudes than the Year-Ahead Outlook Index, which declined by nearly 8% for the quarter and is down by 18% on a year-over-year basis. That represents the largest year-over-year decline in any of the CONFINDEX readings. Public policy is clearly at the heart of expanding angst, with one in five CFOs now indicating that they are very or highly concerned about public policy regarding construction. During the prior quarter, the corresponding proportion was one in seven.

Issues related to worker shortages remain front and center. A quarter ago, 81% of respondents indicated that they were very or highly concerned by skills shortages. That percentage has not changed.

What has changed is the outlook for profit margins. While 47% of respondents indicate that their margins have been widening recently, only 21% expect them to improve over the next year. It is likely that many of these CFOs are unnerved by rising materials prices and prospects for further appreciation.
A SIMPLE EXPLANATION OF CONFINDEX™

• The Overall CONFINDEX™ Number
  • Composite Index Comprised of 4 Sub Indices
    1) Business Conditions
    2) Financial Conditions
    3) Current Conditions
    4) 2018 Outlook – look ahead to March 2019

• Measurements Taken Using 8 Questions
  • Current Business Conditions
  • Future (1 year) Business Conditions
  • Current Bank Credit Availability
  • Future (1 year) Bank Credit Availability
  • Future (1 year) Bonding Credit Availability
  • Line of Credit Status
  • Current Backlog
  • Future (1 year) Backlog

• We calculate indices by taking the “net” of positive responses minus negative responses and adding 100. (Neutral and No Answers are excluded)

• Any index greater than 100 reflects more positives than negatives. Any index less than 100 reflects more negatives than positives.